

ISRAEL¹

MINIMUM WAGE

The national minimum wage in Israel is set under the authority of a 1986 law, implemented in 1987. It is legally defined as a percentage of the gross monthly average wage in the entire economy. Until April 1997, that percentage was 45 percent; since then, it has been 47.5 percent.

By law the maximum hours of work at regular pay are 47 hours a week, 8 hours per day, and 7 hours on the day before the weekly rest, which must be at least 36 consecutive hours and include the Sabbath.² By national collective agreements, the private sector established a maximum 45-hour workweek in 1988; and the public sector moved to a 5-day, 42½-hour workweek in 1989.

The table below presents the nominal and real minimum wage in Israel since 1995, expressed as the monthly average minimum wage in new Israeli shekels (NIS) and in U.S. dollars (US\$) per month (per the local convention of expressing wages and salaries in monthly terms). A level of 180 hours per month was assumed for computation of the minimum wage per hour. To assess the development of the minimum wage in real terms, the nominal monthly minimum wage in shekels has been adjusted for inflation (i.e., rise in the average consumer price index for the year) of 11.3 percent in 1996, 9.0 percent in 1997, and 5.4 percent for 1998.

The Nominal and Real Minimum Wage, 1995-98

| <u>Unit of Measure</u> | <u>1995</u> | <u>1996</u> | <u>1997</u> | <u>1998*</u> |
|---|-------------|-------------|-------------|--------------|
| NIS per month | 1758 | 1996 | 2309 | 2563 |
| US\$ per month | 584 | 626 | 669 | 675 |
| US\$ per hour | 3.24 | 3.48 | 3.72 | 3.75 |
| <i>Real Minimum Wage Index (1995=100)</i> | | | | |
| | 100.0 | 102.0 | 108.3 | 114.0 |

Note: * Data are based on the first nine months only.

¹ Unless noted otherwise, information presented here is from American Embassy—Tel Aviv, unclassified telegram No. 4022 (March 22, 1999).

² U.S. Department of State, *Country Reports on Human Rights Practices for 1998* (Washington: U.S. Government Printing Office, April 1999), p. 1698.

PREVAILING OR AVERAGE WAGE

The table below presents average gross monthly wages per worker, in NIS per month, for workers in the textile and apparel industry and the leather and footwear industry. These have been converted into US\$ per month and per hour at the average exchange rate for the year. For the latter computation, actual hours worked and paid leave hours per month have been used for the textile and footwear industries for each year. The table also presents wages in the apparel and footwear industries in real terms. The decline in real wages since 1995 is mostly attributable to a decline in average hours worked (including paid leave) per employee from 181 per month in 1995 to 168 in 1998, rather than to a decline in the real hourly wage.

Nominal and Real Monthly Earnings in the Apparel and Shoe Industries, 1995-98

| <u>Industry</u> | | <u>1995</u> | <u>1996</u> | <u>1997</u> | <u>1998*</u> |
|-----------------------------------|-------|-------------|-------------|-------------|--------------|
| Apparel (NIS/mo) | 3161 | 3376 | 4006 | 4313 | |
| Footwear (NIS/mo) | 3283 | 3449 | 3962 | 3976 | |
| Apparel (US\$/mo) | 1052 | 1059 | 1161 | 1135 | |
| Footwear (US\$/mo) | 1090 | 1082 | 1149 | 1046 | |
| Apparel (US\$/hr) 5.84 | 5.87 | 6.38 | 6.27 | | |
| Footwear (US\$/hr) | 6.00 | 5.98 | 6.57 | 6.23 | |
| <i>Real Wage Index (1995=100)</i> | | | | | |
| Apparel | 100.0 | 95.8 | 104.3 | 106.5 | |
| Footwear | 100.0 | 94.4 | 99.5 | 94.7 | |

Note: * Data are based on the first nine months only.

The table below presents available data from the International Labor Organization (ILO) on average monthly earnings (direct wages per worker) in Israel for all employees in the manufacturing sector and average hourly earnings for all employees in the apparel and footwear industries. The earnings data include pay for time worked, paid leave, bonuses, and other benefits paid directly to the employee, but not the cost of social insurance programs.³ Average weekly hours worked by all employees were 40.8 in manufacturing for the years 1990 through 1997; and 38.9 in apparel and 39.2 in footwear and leather goods for the years 1990 through 1994.⁴ Current average earnings, which are reported by the ILO in the national currency,

³ International Labour Organization, *Yearbook of Labour Statistics, 1998* (Geneva: International Labour Office, 1998), p. 805.

⁴ International Labour Organization, *Yearbook of Labour Statistics, 1998* (Geneva: International Labour Office, 1998), p. 747.

were converted to US\$ using the annual average exchange rate published in the International Monetary Fund's *International Financial Statistics* (March 1999). To track changes in real earnings (i.e., earnings adjusted for inflation), a real earnings index was computed by deflating current earnings in the national currency with the annual average national consumer price index as published in the International Monetary Fund's *International Financial Statistics* (March 1999), indexed to 1990 = 100.

Average Monthly Earnings in All Manufacturing and Average Hourly Earnings in Apparel and Footwear

| Year | All Manufacturing (monthly) | | Apparel (hourly) | | Footwear (hourly) | | Real Earnings Index (NIS; 1990=100) | | |
|------|--------------------------------|--------|---------------------|--------|----------------------|--------|-------------------------------------|---------|----------|
| | (NIS) | (US\$) | (NIS) | (US\$) | (NIS) | (US\$) | Manuf. | Apparel | Footwear |
| 1990 | 2,669 | 1,295 | 7.3 | 3.54 | 8.9 | 4.32 | 100 | 100 | 100 |
| 1991 | 3,080 | 1,351 | 8.7 | 3.82 | 10.2 | 4.48 | 97 | 100 | 96 |
| 1992 | 3,514 | 1,429 | 10.0 | 4.07 | 12.0 | 4.88 | 99 | 103 | 101 |
| 1993 | 3,917 | 1,384 | 11.0 | 3.89 | 13.0 | 4.59 | 99 | 102 | 99 |
| 1994 | 4,427 | 1,470 | 13.0 | 4.32 | 15.0 | 4.98 | 100 | 107 | 102 |
| 1995 | 5,061 | 1,681 | 15.0 | 4.98 | 16.0* | 5.31 | 104 | 112 | 98 |
| 1996 | 5,757 | 1,804 | 17.0 | 5.33 | 20.0 | 6.27 | 106 | 115 | 111 |
| 1997 | 6,676 | 1,935 | 20.0 | 5.80 | 23.0 | 6.67 | 113 | 124 | 117 |

Note: * indicates a break in series due to classification changes; beginning in 1995, includes other leather products.

Source: ILO, *Yearbook of Labour Statistics*, 1998, p. 905.

NON-WAGE BENEFITS

Israel's national insurance institute (social security system) administers a wide variety of benefit programs for various categories of the population, such as old age benefits, disability payments, unemployment compensation, and maternity benefits. The principal benefit available to textile and footwear workers (as well as to most workers in other industries) generally would be the payment made to all families with children in Israel, regardless of income. Child allowances are based on family size, with larger families receiving more than proportionately larger benefits, as seen in the following table.

Monthly Child Allowances per Family

| Number of Children | In NIS per month: | | | | In US\$ per month: | | | |
|-----------------------|-------------------|------|------|-------|--------------------|------|------|-------|
| | 1995 | 1996 | 1997 | 1998* | 1995 | 1996 | 1997 | 1998* |
| 1 | 123 | 136 | 149 | 159 | 41 | 43 | 43 | 41 |
| 2 | 246 | 272 | 298 | 318 | 82 | 85 | 86 | 83 |
| 3 | 493 | 544 | 597 | 635 | 164 | 171 | 173 | 165 |
| 4 | 990 | 1094 | 1201 | 1278 | 329 | 343 | 348 | 332 |
| 5 | 1408 | 1556 | 1708 | 1818 | 468 | 488 | 495 | 473 |
| 6 | 1870 | 2065 | 2267 | 2413 | 621 | 648 | 657 | 627 |
| 7 | 2299 | 2541 | 2790 | 2968 | 764 | 797 | 809 | 772 |
| 8 | 2729 | 3017 | 3312 | 3523 | 906 | 946 | 960 | 916 |
| 9 | 3158 | 3493 | 3834 | 4078 | 1049 | 1096 | 1112 | 1061 |

Note: * Data are based on the first nine months only.

A U.S. Social Security Administration survey⁵ elaborates on five different non-wage benefit programs which employers in Israel must participate in for their employees: (1) the old age, disability, and death benefits program, first legislated in 1953 and subsequently expanded upon, is a dual social insurance (for all residents) and government-funded social assistance system (means-tested income support). For the social insurance program, employees contribute 2.22 percent of earnings below one-half of average wage for old-age and survivors and 4.01 percent of earnings above one half of the average wage, employers contribute 2.29 percent of payroll, and the government contributes 1.18 percent on earnings above one-half of average wage (with reduced contributions on earnings below one-half of average wage); (2) sickness and maternity benefits, begun in 1953, in which the insured person pays 4.8 percent of their earnings for medical care and 0.6 percent for maternity (3.1 percent and 0.33 percent of earnings below one-half of national average wage), the employer contributes 0.15 percent for maternity, and the government contributes 0.10 percent for maternity (with reduced contribution for earnings below one-half average wage); (3) work injury benefits, begun in 1953, in which the employed person pays nothing, employers contribute 0.53 percent of payroll, and the government contributes 0.17 percent of payroll and earnings (with reduced contribution rates for earnings below one-half of average wage); (4) unemployment insurance, begun in 1970, in which employees contribute 0.15 percent of earnings (0.08 percent, if their earnings are below one-half of the average wage), employers contribute 0.04 percent of payroll, and the government contributes 0.11 percent of payroll (or 0.07 percent of earnings below one-half of average wage); and (5) the family allowances program is a universal system, begun in 1959, in which the employee pays nothing, the employer contributes 1.88 percent of payroll, and the government contributes 0.60 percent of payroll (with reduced rates below one-half of average wage).

ASSESSING BASIC NEEDS: THE POVERTY LINE

The measure of poverty in Israel is a relative measure, not an absolute one (i.e., poverty is not defined in terms of the cost of purchasing some minimum basket of goods of services but instead in relation to the median income, adjusted for family size. Specifically, a family is considered as poor if its net monthly income (income from wages and investments, plus transfer payments or other grants, less direct taxes paid) is 50 percent or less of the median net income, for a family of its size.⁶ The poverty line for 1995-97, based

⁵ Social Security Administration, *Social Security Programs Throughout the World - 1997* (Washington: U.S. Government Printing Office, August 1997), pp. 184-187.

⁶ Thus, the incidence of poverty in Israel is in fact a reflection of the distribution of income rather than a measure of the number of persons below some absolute standard of living. When the median income rises in real (inflation-adjusted) terms, the poverty line rises in tandem, and the number of "poor" may also increase if incomes at the lower end of the income scale rise at a slower rate than the median. For example, while the poverty line rose by 10.8 percent from 1995 to 1996, the CPI rose by an annual average 11.2 percent, indicating a slight real decline in the defined level of poverty. In 1997, however, the poverty line rose by 12.1 percent, whereas consumer prices rose by only nine

on this relative measure, is presented in the following table.

The Poverty Line, 1995-97

| Family Size | In NIS per month: | | | In US\$ per month: | | |
|----------------|-------------------|------|------|--------------------|------|------|
| | 1995 | 1996 | 1997 | 1995 | 1996 | 1997 |
| 1 | 1058 | 1173 | 1315 | 351 | 368 | 381 |
| 2 | 1693 | 1876 | 2104 | 562 | 588 | 610 |
| 3 | 2243 | 2486 | 2788 | 745 | 780 | 808 |
| 4 | 2709 | 3002 | 3366 | 900 | 942 | 976 |
| 5 | 3174 | 3518 | 3945 | 1054 | 1104 | 1144 |
| 6 | 3598 | 3987 | 4471 | 1195 | 1251 | 1296 |
| 7 | 4021 | 4456 | 4997 | 1335 | 1398 | 1449 |
| 8 | 4402 | 4878 | 5470 | 1462 | 1530 | 1586 |
| 9 | 4740 | 5253 | 5891 | 1574 | 1648 | 1708 |

Note: The poverty line is defined as 50 percent of median net income.

Taxes. Because the poverty line is defined in terms of after-tax income, some adjustment to gross wages must be made for taxes. Israel is a relatively high-tax country, with a steeply progressive income tax and a complex array of adjustments to individual income taxes depending on residence and family circumstances. All citizens are eligible for “tax credit points” (i.e., credits against income tax due) which were worth NIS153 each per month (about US\$40) in 1998. These are awarded on the basis of an individual’s family circumstances. For example, an unmarried man or a married man with a working wife is eligible for 2.25 credit points; a single woman or a married woman without children would get 2.75 credit points; a married man with a non-working wife receives 3.25 points; a married woman with children gets 3.75 points; and so on. In addition, residents of designated development priority regions (in which many textile and shoe plants are located) are eligible for special tax credits of 3-7 percent of monthly income. The tax rates are presented in the table below.

Tax Rates, 1998

Income Tax

| Monthly Income (NIS) | | | Marginal Tax Rate (percent) |
|----------------------|-------|----|-----------------------------|
| From | 0 | to | 1770 |
| | | | 10 |
| | 1770 | | 3540 |
| | | | 20 |
| | 3540 | | 9330 |
| | | | 30 |
| | 9330 | | 16910 |
| | | | 45 |
| | 16910 | | – |
| | | | 50 (top marginal rate) |

National Insurance (Social Security)

percent, implying a three percent real increase in the level of poverty.

| <u>Monthly Income (NIS)</u> | | | | <u>Employee Contributions Only (in percent)</u> | |
|-----------------------------|-------|----|-------|---|--|
| From | 0 | to | 2803 | 2.66 | (Reduced rate on salaries up to ½ average wage) |
| | 2803 | to | 22420 | 4.60 | (Full rate on amounts from ½ to four times average wage) |
| | 22420 | to | – | 0 | (No national insurance due on amounts above four times average wage) |

Incidence of Poverty. Because poverty is defined in relative rather than absolute terms, there has been no appreciable decline in the poverty rate in Israel over the past two decades despite a substantial increase in real incomes and consumption, as seen in the following table.

Percentage of Families Below the Poverty Line

| <u>Year</u> | <u>Before Transfer Payments and Taxes</u> | <u>After Transfer Payments and Taxes</u> |
|-------------|---|--|
| 1980 | 28.1 | 15.7 |
| 1985 | 31.3 | 11.4 |
| 1990 | 34.3 | 14.3 |
| 1991 | 35.3 | 14.9 |
| 1992 | 34.7 | 17.2 |
| 1993 | 34.6 | 16.2 |
| 1994 | 34.2 | 18.0 |
| 1995 | 33.7 | 16.8 |
| 1996 | 34.3 | 16.0 |
| 1997 | 34.3 | 16.2 |

Minimum and Apparel Wages and Poverty: An Example. To bring the foregoing information on wages, taxes, government benefits, and poverty together, the table below offers the following example of a full-time male worker, employed in a non-development priority region, with a non-working wife and two children below the age of 18 earning (a) the minimum wage, and (b) the average monthly wage in the apparel industry, both for the year 1998. This worker would be eligible for 3.25 tax credit points, equal to a reduction of income tax of NIS497 per month, which would eliminate the minimum wage worker's income tax liability. While this is only a simplified, illustrative example, actual family circumstances could vary considerably. Amounts are given in shekels per month, except for the last two rows, which have been converted into U.S. dollars at the average exchange rates of NIS3.45 per dollar for 1997 and 3.80 for 1998. According to this example, a worker earning the average salary in the apparel industry would be modestly above the poverty line, while a minimum wage worker would be substantially below it.

Minimum and Apparel Wages and Poverty, A Comparison, 1998

| <u>Item</u> | <u>Minimum Wage</u> | <u>Apparel Wage</u> |
|------------------------|-------------------------|-------------------------|
| Gross Wage Income | 2563 | 4313 |
| Less: Basic Income Tax | | 336 |
| National Insurance | | 68 |
| | | 763 |
| | | 149 |

| | | | |
|----------------------------|------|------|------|
| Plus: Tax Credit Points | 336 | 497 | |
| Child Allowance | 318 | 318 | |
| Net Monthly Income | 2813 | 4216 | |
| Poverty Line (1997) | 3366 | 3366 | |
| Net Monthly Income (US\$) | | 740 | 1109 |
| Poverty Line (1997) (US\$) | | 976 | 976 |

MEETING WORKERS' NEEDS

There is little conclusive evidence on the extent to which wages and non-wage benefits in the footwear or apparel industries in Israel meet workers' basic needs. The U.S. Embassy did not identify any information on the living wage in Israel.